

## Message Text

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ACTION EA-09

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FM AMEMBASSY PORT MORESBY

TO SECSTATE WASHDC 1687

INFO AMEMBASSY CANBERRA

AMEMBASSY JAKARTA

AMEMBASSY MANILA

AMEMBASSY SUVA

AMCONSUL SYDNEY

AMEMBASSY WELLINGTON

HICOMTERPACIS SAIPAN

CINCPAC

UNCLAS PORT MORESBY 0797

CINCPAC ALSO POLAD

E.O. 11652: NA

TAGS: EFIN, PP

SUBJ: CERP 0200: PNG BUDGET FOR FY1976/77 PRESENTED TO  
PARLIAMENT

1. MINISTER FOR FINANCE JULIUS CHAN BROUGHT DOWN HIS FIFTH AND FINAL ANNUAL BUDGET BEFORE THE FIRST NATIONAL PARLIAMENT AUGUST 3, 1976. (BUDGET CYCLE IS FROM JULY 1 TO JUNE 30.) EXPENDITURES WILL TOTAL K439.7 MILLION (US\$571.6M.). ESTIMATED RECEIPTS WILL BE K426.5 MILLION (US\$554.4 M.). THE DIFFERENCE WILL BE MADE UP BY BORROWINGS. THIS REPRESENTS A MONEY GROWTH OF ABOUT TWO PER CENT, BUT EVEN INCLUDING THE FIVE PER CENT REVALUATION OF THE KINA AGAINST THE AUSTRALIAN DOLLAR, IT WILL MEAN A SLIGHT CONTRACTION IN REAL TERMS.

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2. THE 1976-77 BUDGET PRESENTS FEW SURPRISES, IS QUITE

CONSERVATIVE IN TERMS OF GROWTH AND EMPHASIZES THE GOVERNMENT'S DETERMINATION TO ALLOCATE RESOURCES TO THE RURAL SECTOR OF THE ECONOMY. PERSONAL INCOME AND COMPANY TAXES WERE NOT RAISED ALTHOUGH ADDITIONAL ITEMS WERE ADDED TO THE 45 PER CENT CUSTOMS DUTY LIST AND GASOLINE AND AVGAS TAXES WERE BOTH RAISED ALONG WITH OTHER MINOR MEASURES DESIGNED TO RAISE AN ADDITIONAL K4.0 MILLION (US\$5.2 M.) IN TAX REVENUES. BUSINESSMEN AND LABOR UNIONS HAVE PRAISED THE BUDGET AND OPPOSITION CRITICISM THUS FAR HAS BEEN MUTED.

3. DEPARTMENTAL EXPENDITURES AT K258.1 MILLION (US\$335.5 M.) MAKE UP 59 PER CENT OF THE TOTAL BUDGET ALLOCATION. THIS IS A 15 PER CENT INCREASE OVER LAST YEAR'S EXPENDITURES, MOSTLY DUE TO SALARIES FOR AUSTRALIAN CONTRACT WORKERS FORMERLY PAID DIRECTLY BY THE AUSTRALIAN GOVERNMENT. PUBLIC SERVICE, TARGET FOR STRONG CRITICISM, WILL EXPERIENCE ONLY 1.4 PER CENT GROWTH DURING THE NEW YEAR.

4. THE SECOND MAJOR AREA OF EXPANSION IS THE WORKS PROGRAM. CAPITAL WORKS WILL COST K51.1 MILLION (US\$66.4 M.) UP 18 PER CENT AND MAINTENANCE AT K32 MILLION (US\$41.6 M.) WILL RISE 15 PER CENT.

5. THE ONLY NEW AREA OF EXPENDITURE WILL BE THE FUNDING OF PROVINCIAL GOVERNMENTS. EACH WILL BE ALLOCATED K50,000 (US\$65,000). A SPECIAL RURAL PROJECTS GRANT OF K100,000 (US\$130,000) PER PROVINCE IS ALSO AUTHORIZED AS IS THE ESTABLISHMENT OF PROVINCIAL DEVELOPMENT CORPORATIONS WHICH CAN INVEST IN EXISTING BUSINESSES OR UNDERTAKE NEW BUSINESS PROJECTS ON BEHALF OF PROVINCIAL AUTHORITIES. OTHER MEASURES WILL ASSIST THE PROVINCES IN ESTABLISHING THEMSELVES FINANCIALLY. ALL THESE MEASURES UNDERSCORE THE GOVERNMENT'S COMMITMENT TO MAKE DECENTRALIZATION A REALITY SINCE IT APPEARS TO MEET THE NEEDS AND DESIRES OF PAPUA NEW GUINEANS.

6. BOUGAINVILLE ONCE AGAIN WAS SINGLED OUT FOR SPECIAL TREATMENT. THE BUDGET PROVIDES FOR AN UNCONDITIONAL

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GRANT OF K2.3 MILLION (US\$2.9 M.). THIS IS IN ADDITION TO AS YET UNDETERMINED PAYMENTS IN RESPECT OF ROYALTIES FROM BOUGAINVILLE COPPER LTD. THERE ALSO WILL BE A NATIONAL WORKS PROGRAM IN BOUGAINVILLE COVERING ARCHITECTURAL WORKS OF NATIONAL CONCERN, TO WHICH K595,000 (US\$773,500) IS ALLOCATED. FROM ITS OWN FUNDS, THE BOUGAINVILLE PROVINCIAL GOVERNMENT WILL BE RESPONSIBLE FOR ALL WORKS AND MAINTENANCE WITH RESPECT TO ROADS

TOGETHER WITH OTHER PROVINCIAL WORKS AND MAINTENANCE.

7. THE CONSENSUS IS THAT THE LAST BUDGET TO COME FROM THE COALITION GOVERNMENT IS A WELL-CONSTRUCTED DOCUMENT WHICH ACHIEVES SEVERAL AIMS. IT LIMITS THE GROWTH RATE OF THE PUBLIC SERVICE, PUTS MONEY INTO AREAS (CAPITAL WORKS) WHICH WILL HELP GENERATE FUTURE REVENUE, GETS PROVINCIAL GOVERNMENTS OFF TO A SOUND FINANCIAL START, AND DOES NOT INHIBIT GROWTH OF THE PRIVATE SECTOR BY INCREASING TAXES ON INDIVIDUALS AND BUSINESSES. THE GOVERNMENT'S CONTINUED CONCERN FOR THE RURAL SECTOR IS EVIDENT TO ALL AND MEETS WITH WIDE SUPPORT AND APPROVAL. PERHAPS THE ONLY DISAPPOINTMENT WAS THE UNWILLINGNESS TO TAX COFFEE PROFITS ALTHOUGH THE PROVINCIAL GOVERNMENTS IN AREAS WHERE COFFEE IS GROWN MAY HAVE THE POLITICAL WILL TO DO SO TO FUEL THEIR OWN DEVELOPMENT PLANS.

8. THE BUDGET, TAKEN TOGETHER WITH THE RECENT FIVE PER CENT REVALUATION OF THE KINA, DEMONSTRATES ONCE AGAIN CHAN'S COMMITMENT TO A HARD CURRENCY STRATEGY AND HIS DETERMINATION TO STEER A MIDDLE COURSE. KEEPING THE LID ON EXPENDITURES IN AN ELECTION YEAR IS NO MEAN FEAT AND DEFINITELY AUGURS WELL FOR THE COMING YEAR AND LATER WHEN THE ECONOMY TAKES OFF AGAIN. CHAN'S AIM TO PRODUCE A BUDGET OF "STABILITY AND DECENTRALIZATION" HAS BEEN ACHIEVED.  
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